



# Blueprint

Building Profits for Construction & Real Estate Companies

## Planning & scheduling: your key to improved profits

by Jerry Henderson, Bowling Green, [jhenderson@bkd.com](mailto:jhenderson@bkd.com)

Planning and scheduling are vital to the success of your organization. The discipline of planning and scheduling can help you yield higher profits and also can improve the quality and timeliness of your work.

The economic uncertainty of the last two years has had a devastating effect on the construction industry.

As a result, most contractors have focused on overhead reduction; however, they may have overlooked the biggest cost-savings opportunity yet—reducing direct costs through better project management.

### Preconstruction planning works

Preconstruction planning for the field superintendent means developing a schematic job site layout for each major stage of the job.

Job-site layouts determine where each trade's materials will be stored, where job trailers will be placed, where equipment will be parked and stored, where delivery ingress and egress points will be stationed, where workers will park their vehicles, take breaks and attend job site meetings.

The job-site layout is shared

with all trades and material vendors who will make on-site deliveries and also considers any unique physical aspects of the site.

For example, in the early stages of a renovation project, asbestos removal might make a portion of the site inaccessible. Another example is the restrictions

**This three-part series will provide specific ideas that, when implemented, will help give your project management a competitive edge**

placed on certain aspects of a highway project until it obtains all the necessary permits.

A well-planned job site can improve efficiency, increase workspace and reduce wasted time (issues covered in the next article about job site resource control).

### Prepare formal job schedule

Preconstruction planning for the project manager means preparing a formal job schedule. The type of schedule depends on the project's complexity:

- ✓ Milestone schedules document major project milestones and expected completion dates
- ✓ Critical path schedules help to ensure timely completion for complex projects with a short construction period

Once the schedule is ready, the field superintendent and project

manager should work together to obtain materials and arrange for their timely delivery to the job site.

As a companion to the schedule, the superintendent and manager also should begin a percentage-of-completion report to be updated throughout the project.

Driven by actual work performed (expressed in units whenever possible) the report may be highly summarized by major phases, but management can use it as a reporting tool, as well as a check against the accounting department's percentage-completion calculation.

Finally, address any open items, *e.g.*, obtain all appropriate permits, negotiate the final scope of work or determine final design plans.

### Prejob meetings smooth process

Schedule prejob meetings, beginning with an internal meeting led by the president or operations manager of the company.

The project manager, field superintendent and office manager or controller should attend this meeting. If your organization has an estimator and purchasing manager, they also should be present.

Depending on the project's size, this initial meeting can take from 30 minutes to a full day. It should focus on any unique aspects of the job that need to be

monitored or addressed on the front end.

Benefits of an internal prejob meeting include:

- ✓ Awareness of problem areas; developing solutions before problems become costly
- ✓ Gaining insight into how to achieve greater efficiency on the job
- ✓ Discussion of the job's unique aspects, such as billing requirements and change-order management and establishing a way to communicate this information to administrative staff

The preconstruction meeting is next and should include the contract owner, designer, construction manager, general contractor and key subcontractors.

Use this meeting to review the project's mission and major goals. It also should address key

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# FAS 150 could still hurt your business

by Larry Van Horn, Wichita,  
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In May 2003, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standard No. 150 (FAS 150), *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*.

FAS 150 provides new guidelines for reporting financial instruments as either liabilities or equity, causing many instruments previously classified as equity to be reclassified as liabilities.

## FAS 150 section ignites protests

A firestorm of protest erupted from the private sector in response to a section of FAS 150 because of its potentially negative effect on private businesses, especially contractors.

Briefly stated, the section in question involves the agreements many privately held companies have that require company stock (or equity interest) to be redeemed by the company in the event of a partner's or shareholder's death.

These agreements are often partially or totally funded by life insurance (life insurance did not limit applicability of FAS 150), and were put together for continuity, estate and gift planning, often at the behest of banks and bonding companies.

Before FAS 150, generally accepted accounting principles (GAAP) required only a disclosure of such a commitment; however, FAS 150 imposes new requirements on mandatorily redeemable financial instruments (MRFIs).

An agreement where the company must buy back shares of a deceased shareholder is defined by FAS 150 as an MRFI. If you have such an agreement, your stock is required to be redeemed by the company when you die, a mandatory requirement many companies are objecting to.

Because FAS 150 requires the **reclassification of MRFIs as a liability rather than equity**, accounting for many stock repurchase or buy-back arrangements may be affected.

## Industry concerns

Assuming an MRFI agreement exists, the abbreviated sample balance sheet below describes a fictional contractor's book value to be \$1,100,000 and its fair market value to be \$2,300,000.

The figures below reveal FAS 150's consequences for contractors, including its potentially alarming effects on loan agreement covenants, bonding and federal, state and other governing bodies' qualifying requirements.



The negative impact FAS 150 would have on the private sector, especially contractors, brought several national organizations together in protest.

General Contractors (AGC), the Construction Financial Management Association (CFMA) and the Financial Executive Institute brought their concerns before FASB.

FASB temporarily postponed FAS 150 implementation for private businesses. After input from AGC and others, FASB postponed implementation indefinitely for most MRFIs of private businesses.

Along with other firms, BKD worked with CFMA and AGC to explain the impact of FAS 150 on MRFIs, which assisted the groups in convincing FASB to postpone FAS 150 requirements on most MRFIs for private companies.

The issue may not be dead. BKD believes future implementation is likely. Until FASB rules on the nonpublic company applicability issue, the MRFI deferral will no doubt remain in effect.

## Take action

FAS 150 is the first phase of a larger FASB project on liabilities and equity. It is difficult to anticipate the future impacts of this project on private businesses, including contractors.

However, in the short term, you can react positively to the respite from MRFIs and restructure your business and financial affairs. This may help lessen the impact should the planned treatment of MRFIs remain unchanged.

Assuming nonpublic companies will not be exempt from classifying MRFIs as liabilities under FAS 150, it may be wise to consider the following:

- ✓ Modify/amend existing mandatory buy-sell agreements so they have a contingent obligation

placing such agreements outside the scope of FAS 150.

Consider making such agreements a "first right of refusal" for redemption. Place the redemption requirements on other stockholders, employees or family members and transfer any life insurance to cover the requirement.

- ✓ Eliminate the mandatory buy-sell requirement and adopt an "imbedded put" on the shareholder's part and an "imbedded call" on the company's. Do not make the put or call "free-standing"; this may not be an effective long-term solution.
- ✓ Modify the mandatory requirement for redemption by basing it on the realization of proceeds from life insurance—no proceeds, no redemption. (Do not *require* the company to carry the life insurance.)
- ✓ Issue financial statements under an "other comprehensive basis of accounting" (OCBOA), *i.e.*, income tax basis; however, this may not be practical with bonding, lender and regulatory requirements for GAAP.
- ✓ Continue to report MRFIs as equity under pre-FAS 150 requirements and disclose exceptions in the notes to financial statements; however, this will likely result in a qualified opinion on your financial statements from your auditor.
- ✓ Have lending agreement covenants rewritten to encompass ratios based on modified GAAP (pre-FAS 150) or to consider the results of its implementation in calculating the ratios.

Keep in mind that while these changes address the issues caused by FAS 150, future FASB guidance on this project may require additional action on your part to avoid unintended consequences.

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Contact your BKD real estate and construction advisor for more information about FAS 150. □

## Sample Balance Sheet

Balance Sheet	Before FAS 150	Adjustment	After FAS 150
Total Assets	\$1,600,000	\$-----	\$1,600,000
Total Liabilities	\$500,000		\$500,000
Commitment	-----	2,300,000	<u>2,300,000</u>
	500,000		2,800,000
Total Equity	<u>1,100,000</u>	<u>(2,300,000)</u>	<u>(1,200,000)</u>
	\$1,600,000	\$_____0	\$1,600,000

# Leverage technology to close productivity gap

by Joe Tanona, BKD Technologies, [jtanona@bkd.com](mailto:jtanona@bkd.com)

The people who develop your company's programs and/or projects—owners, project managers and financial managers—may have different roles and responsibilities, but increased productivity and cost reductions are concerns they share.

To meet responsibilities and accomplish shared company goals, each functional area manager or owner must meet certain business needs and objectives, including:

- ✓ Better, more efficient ways to control projects and their costs
- ✓ More effective ways to manage programs and/or projects
- ✓ Improved risk-reduction tools
- ✓ Higher profits

## Define productivity & be aware of trends

According to the U.S. Bureau of Labor Statistics, the construction industry lags behind other industries' productivity and technology levels. How do you close the productivity gap?

Begin by defining what productivity means to your company—to individuals, as well as separate facilities, functional areas and groups. Learn how your company measures or manages resources, *e.g.*, assets, human and capital.

Productivity is the result of many contributing factors and how related systems and subsystems work together at various levels to produce a product or service.

There is no single cure-all for the construction industry, but there are significant opportunities for both incremental and big-step improvements. Although technology itself is not the solution, it is an important contributor.

Consider the following industry systems and technology trends:

**Enterprise applications with breadth and depth of functionality** – Enterprise resource-planning (ERP) systems have advanced in functionality, specifically within construction.

**Systems that can be integrated with other systems and those that facilitate collaboration** – Every program or project will have a different mix of architects, construction managers and contractors; most likely, software applications also will differ.

**Extended applications to improve productivity and flow of information from field to financials** – Electronic data interchange (EDI), the first attempt at standardization, is used in supply-chain operations and other areas.

Deployment and use have improved; as an extension of ERP, EDI's application to construction now includes purchase orders, invoicing/billing, acknowledgments and money and wire transfers.

**Industry standardization** – At year end 2003, the aecXML initiative (to standardize and facilitate information exchange across the industry) is breathing life again. aecXML is an XML-based language that represents information in the architectural, engineering and construction industries.

Information resources include projects, documents, materials, parts, organizations, professionals or activities, such as proposals, design, estimating, scheduling and construction. aecXML is a work in progress; when completed, it will expand the exchange of information.

**Wireless and mobile applications** – These applications include mobile work orders, call acknowledgement, project management applications. They help reduce errors, increase the velocity of information for better planning

and execution, eliminate paperwork and gain efficiencies.

**Technology tools and hardware** – Products include PDAs and handheld devices that may help in the field for dispatching, servicing, inventory and asset tracking.



## Leveraging tips

Following are tips to help you improve your methods of leveraging technology:

- ✓ Have a strategic technology plan for the way you want your organization to perform in three to five years. How will technology support it?
- ✓ Understand system and technology requirements at various levels of operation. The owner's responsibilities (planning, managing risk) are different from those of the project manager and field technician (execution and delivery), but all depend on information, and their needs often overlap significantly.
- ✓ Assess your enterprise application(s). How well does it address today and tomorrow's requirements?

- ✓ Have you outgrown your current system(s); are upgrades possible?
- ✓ Can you integrate your system with other systems and applications?
- ✓ Develop and use key performance indicators to drive continuous improvement and measure results.
- ✓ Adopt a process-first approach; learn which processes could or should be improved. Understand (quantitatively and qualitatively) a solution's benefits before it's implemented.
- ✓ Explore opportunities to collaborate with personnel who want to close the productivity and technology gap.
- ✓ Look for incremental improvement; "low hanging fruit" may have a significant return.
- ✓ Educate personnel for a shared understanding of information necessary for success.
- ✓ Take an accurate job-cost-to-date snapshot.
- ✓ Recognize revenue sources.
- ✓ Understand where you are in the project from a work-in-process vs. invoiced or collected. □

## Construction Institute launched

by Roxy Baas, Evansville, [rbaas@bkd.com](mailto:rbaas@bkd.com)

Last September, BKD, in partnership with Associated General Contractors (AGC) and Associated Builders and Contractors, began a series of business-training programs for the construction industry.

Currently, programs are offered only in the key metropolitan areas of Indiana and Kentucky; however, your company or local trade group can arrange on-site presentations on a contract basis with BKD.

Program topics include project planning, construction law, surety underwriting and financial health.

"Hidden Risks to Contractors in Standard Form Construction Contracts" is the subject of one seminar. Here's a summary.

Before you sign your next contract, understand the specific provisions in common, standard-form agreements. Remember, if you sign a contract, it becomes your agreement. Judges and arbitrators view it as the only agreement



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## Attention contractors & suppliers: Do you work in or deliver to Indiana?

by Doug Stucker, Indianapolis,  
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Out-of-state contractors and suppliers that work in or deliver to Indiana will be affected by a new tax law effective January 1, 2004.

Now subject to Indiana sales tax are installation fees related to the sale of taxable personal property also sold by the installer.

The Indiana Department of Revenue defines installation as a charge for adding something new or different to an item. For example, fees for installing a trailer hitch to a vehicle that did not have one before are taxable, as are charges to install a refrigerator or other taxable personal property subject to Indiana sales tax.

Installation charges are taxable even when billed separately from the property that was sold. Before January 1, 2004, separately stated installation charges were generally not taxable.

Some exemptions still apply:

- ✓ Installation fees for installing nontaxable items
- ✓ Installation fees to incorporate construction materials into real property
- ✓ Installation fees billed by a third party
- ✓ Separately stated repair or replacement fees



In addition, delivery charges are now included in gross retail income and are subject to tax, regardless of shipping terms, for otherwise taxable transactions. This applies even when delivery charges are separately stated.

Deliveries made by or on behalf of the property seller are taxable even when the charge is separately stated.

Other states have adopted similar tax laws that could affect your business. Contact your BKD advisor for more information. □

## Planning & scheduling. . .

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open items, *e.g.*, final design decisions from the owner, pending permits, the job schedule, change order process, payment process, closeout procedures and dispute resolution methods.

Benefits from the internal prejob meeting include:

- ✓ Key expectations of different parties can be discussed immediately before starting the project
- ✓ Puts concerns and questions on the table for discussion
- ✓ Improves ability to work together, avoid problems or solve them quickly before they are out of control

### Use simple, commonsense ideas

Better planning and scheduling in the preconstruction phase can improve your project's profitability. This article offers just a few ideas to help your company make that happen.

The ideas may not be revolutionary, but they don't have to be to be effective. Simple, commonsense ideas can help build discipline and make planning easier.

One parting thought: Don't be surprised if things don't go exactly as planned; it doesn't mean your work is in vain. As Dwight Eisenhower said, "In preparing for

battle, I have always found that plans are useless, but planning is indispensable." \* \* \*

Contact your BKD real estate and construction advisor for more information about construction planning. □

## Construction Institute. . .

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between parties, and it becomes the project's largest source of "law."

What risks do contractors take when they use a form off the shelf? Standard form contracts published by the AIA, the AGC and others, while written for a purpose, may not necessarily be your purpose.

Contact your BKD advisor for more information about the Construction Institute. For a program schedule, go to <http://www.bkd.com/news/calendar.asp>. □

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